

deposit them again as guarantee for a larger loan, and so on without limit. The interest rate was raised in January, 1892, to five per cent., but without entirely curing the difficulty.

The recent history of the Bank of Spain is colored by the results of the war with the United States in 1898 and the efforts since made to restore order to Spanish finances. When war broke out, the Spanish government had already practically exhausted the credit of the country and of the bank. If a sound financial policy had been pursued up to this time, the state would have been in a much stronger position to negotiate loans or to sanction the issue of bank paper under specie suspension, as was done by the Bank of France in the war with Germany. Appeal was again made by the Treasury to the Bank of Spain, and the circulation was forced upward to 1,459,505,000 pesetas on February 1, 1899, after peace had been made with the United States, but while many war expenses were still unpaid. During the war Paris exchange rose for a time above one hundred per cent.—a depreciation of fifty per cent, on the notes of the bank. The restoration of peace brought down the gold premium to twenty per cent., and the Spanish Treasury struggled manfully to pay the interest on the foreign debt, even when augmented by the refusal of the United States to permit the Cuban debt to continue a charge upon the revenues of that island or to assume the debt of the Philippines.

Contrary to the policy of other great state banks, the Bank of Spain did not co-operate heartily with the government in seeking to restore stability of exchange. It was declared in the Cortes in 1900, by one of the ministers, that "The Bank of Spain has departed from its functions and failed completely in its mission."¹ A year later the same minister, Senor Moret, declared^a:

The bank does not issue notes against its assets; its notes respond to no operation of credit; and when a bank of issue does not thus function, when its assets are not made up of commercial paper,

¹ Lacombe, *Le Change Espagnol*, 41.

³ Mitjavile, *La Crise du Change en Espagne*, 124.